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Message Text

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TAGS: EFIN, CY

SUBJECT: U.S.-CYPRUS INCOME TAX CONVENTION

REF: 77 STATE 305406 AND PREVIOUS

1. STATE AND TREASURY REPRESENTATIVES MET WITH CYPRUS EMBASSY OFFICER ANGELIDES MARCH 15 TO DISCUSS HOW TO PROCEED ON U.S.-CYPRUS INCOME TAX CONVENTION. EUR/SE DIRECTOR PRE-FACED DETAILED DISCUSSION BY NOTING THAT REASONS THAT HAD PROMPTED OUR DELAYING RATIFICATION OF CONVENTION HAD NOW BEEN OVERTAKEN, AND THAT WE WERE READY IN PRINCIPLE TO MOVE AHEAD WITH RATIFICATION PROCEDURE. IT WAS QUITE POSSIBLE, HOWEVER, THAT THERE HAD BEEN CHANGES IN U.S. OR CYPRIOT TAX LAW SINCE NEGOTIATION OF THE CONVENTION IN 1972 THAT WOULD MAKE AMENDMENTS NECESSARY, AND FOR THIS REASON A CARE-
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FUL REVIEW OF THE TEXT WOULD BE DESIRABLE.

2. TREASURY REPRESENTATIVE NOTED THAT THIS WAS BASICALLY A SOUND TREATY IF SOMEWHAT OUTMODED IN FORMAT, BUT THAT THERE WERE CERTAIN SPECIFIC POINTS THAT WE WOULD WISH TO SEE ADDRESSED. WE COULD NOT, FOR ONE, ACCEPT JANUARY 1, 1974, AS SPECIFIED IN PRESENT TEXT, AS THE EFFECTIVE DATE FOR

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BENEFITS UNDER THE CONVENTION. IN ADDITION, THE DOLLAR THRESHOLD FOR TAXING ENTERTAINERS' FEES MIGHT NEED

TO BE RAISED, AND THE PROVISIONS FOR ADMINISTRATIVE ASSISTANCE--IN PARTICULAR REGARDING EXCHANGE OF INFORMATION--COULD PERHAPS BE TIGHTENED UP. MORE SIGNIFICANTLY, TREASURY WAS CONCERNED OVER RECENT CHANGES IN CYPRIOT TAX LAW REGARDING INVESTMENT INCENTIVES, WHICH COULD POSSIBLY HAVE EFFECT OF MAKING CYPRUS A TAX HAVEN. WE MIGHT WANT TO PROPOSE SUBSTANTIVE CHANGES IN THIS AREA. (AT ANGELIDES' REQUEST, SPECIFIC ARTICLES WE MIGHT WISH TO REVIEW WERE IDENTIFIED.)

3. TREASURY REPRESENTATIVE PROPOSED TO ANGELIDES THAT THE GOC SEND A DELEGATION OF TAX EXPERTS TO WASHINGTON TO TALK THROUGH WITH TREASURY COUNTERPARTS THESE AND ANY OTHER QUESTIONS REGARDING CONVENTION THAT GOC MIGHT WISH TO RAISE. HE SUGGESTED THE WEEK OF MAY 22 OR, ALTERNATIVELY, WEEKS OF APRIL 17 (EXCEPTING THE MONDAY) OR JUNE 26. GIVEN SCHEDULING DIFFICULTIES, AN EARLIER MEETING WOULD NOT BE POSSIBLE. ANGELIDES INDICATED THERE MIGHT BE PROBLEMS (APPARENTLY FINANCIAL) WITH A CYPRIOT DELEGATION COMING TO WASHINGTON, AND ASKED WHETHER TREASURY EXPERTS COULD NOT TRAVEL TO NICOSIA. TREASURY REPRESENTATIVE SAID THIS MIGHT BE POSSIBLE, BUT NOT UNTIL CONSIDERABLY LATER IN THE YEAR.
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4. STATE AND TREASURY REPRESENTATIVES EXPLAINED THAT, GIVEN CONGRESSIONAL SCHEDULING, THE U.S. RATIFICATION PROCESS WOULD UNDER BEST OF CIRCUMSTANCES NOT BE SWIFT. IF EXPERTS' TALKS COULD IN FACT BE HELD IN WASHINGTON ON ANY OF THE ABOVE DATES, AND IF AGREEMENT WERE QUICKLY REACHED ON NECESSARY AMENDMENTS, THEN THERE WOULD BE A SLIGHT POSSIBILITY THAT RATIFICATION COULD TAKE PLACE LATE IN 1978. IF A U.S. DELEGATION WERE TO GO TO NICOSIA LATER IN THE YEAR, RATIFICATION WOUD ALMOST CERTAINLY NOT OCCUR UNTIL 1979. THE TREATY WOULD BE SENT TO THE SENATE SOME SIX TO EIGHT WEEKS FOLLOWING SIGNATURE OF THE AMENDING PROTOCOL, BUT FROM THAT POINT ONWARDS THE ADMINISTRATION WOULD HAVE VIRTUALLY NO CONTROL OVER THE PROCESS. USUAL PRACTICE IN THE SENATE IS TO ACCUMULATE TAX TREATIES AND THE LIKE FOR ACTION TOWARDS THE END OF A SESSION. ANGELIDES EXPRESSED 0ELIEF THAT RATIFICATION OF ANY ADDITIONAL PROTOCOL IN CYPRUS HOUSE OF REPRESENTATIVES WOULD NOT BE TIME-CONSUMING.

5. ANGELIDES UNDERTOOK TO CONVEY THE ABOVE TO GOC AND TO PROPOSE THAT CYPRIOT TAX EXPERTS' DELEGATION COME TO

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WASHINGTON ON ONE OF DATES MENTIONED. VANCE

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